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IBTTA Transportation Finance Summit
December 3-5 2006

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International Bridge, Tunnel and Turnpike Association

NW Financial Group, LLC

Myths of Toll Road Asset Sales

Are Concession Agreements for existing toll road assets P3?
OR
Are they really leveraged buyouts?

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The 6 Myths

Patient Capital	Growth Wedge Value	Cost Of Capital
Valuation On Traffic Growth	Cost Of Living Toll Increases	Adds Money To Transportation

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    graph TD
      A[Concessions] --> B[Build]
      A --> C[Operate]
      A --> D[Buy]
  
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Deal being Sold

Net Toll Revenues

Past ← Today → Future

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Patient Capital ?

Is equity really patient?

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Patient Capital ?

- In Chicago, not really:
 - Initial equity of \$887 mm was reduced to \$502 mm within 1 year
 - Funds were returned to investors
 - Yield to investors were enhanced by nearly 300 basis points in expected return from approximately 9% to 12%
 - Equity insisted on early equity dividend rights from the debt holders
 - In fact payments to debt holders ended up being "patient" through:
 - » Balloon Principal Payments
 - » Deferred Swap Payments
 - » Back End Loaded Maturities

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Patient Capital ?

- Public sector capital is more patient and lower cost
 - No need to enhance returns
 - Zero coupons and CABs allow for "patience"
 - This structure well accepted in toll roads
 - 50-75bp more expensive than current coupons but 300+ basis points less expensive than equity funding
- Public "patient capital" would result in higher valuations or lower toll increases for the same economic asset

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Higher Valuations ?

- Key factors in Valuation:
 - Revenue growth
 - Cost Reductions
 - Net Cash Flow
 - Internal Rate of Return
 - Period of Control of Cash Flows
 - Termination or Sale Value
 - Cost of Funds
 - Leverage Available

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Higher Valuations ?

- Higher prices paid for future growth prospects
- Find an "irrationally exuberant" buyer
- Pay for the "Growth Wedge"

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Higher Valuations ?

Did Cintra/Macquarie overpay?

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Higher Valuations ?

NO!

Indiana

Full price recovery at:

- 2% floor toll increases
- 1.5% traffic growth (historical)

OR

- 4% toll increases
- Zero traffic Growth

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Car Toll Impacts

At 4% annual toll increases:

Indiana*

Original	\$ 4.00
Now	\$ 8.00
20 years	\$ 16.00
50 years	\$ 54.00
75 years	\$145.00

*Indiana toll price is for thru trip of entire length of road

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Cost of Capital

- Cost of capital drives valuation metrics
- Implied cost of capital in Chicago and Indiana is about 6.00%
- Public cost of capital would be much lower
 - 70 basis points lower as taxable
 - 150 basis points lower as tax exempt

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Summary

- Key driver in valuation is NOT future traffic growth but rather the ability to increase tolls as high as GDP per capita, which has averaged over 7% for the last 50 years, including the great depression.
- Given historic traffic growth it is likely that tolls will be increased at least 3-4% per annum for investors to recover the purchase price at the cost of funds
- The same or even greater dollars could have been delivered through a monetization by the public sector thus preventing toll increases for private profit
- Public monetization would assure excess funds from traffic growth would remain in public coffers rather than provide windfall profits to private firms

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Real Deal

Net Toll Revenues

Windfall Profits Lost Public \$\$\$

Price Offered In Private Sale

Past ← Today → Future

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Doesn't mean P3 can't work

Ways to Improve Concessions for existing assets:

- Eliminate GDP toll escalator
- Use unforeseen circumstance clause to share risk
- Shorter terms on concessions (30 years)
- Profit sharing for traffic growth
- Award based on a balanced analysis of both dollars offered and toll increase cap offered

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Amber Light

Concessions on existing assets introduce new risks to public sector:

- Loss of public control over a key economic development tool
- Loss of transparency to the public
- Toll increases will far exceed historic toll increases on public toll roads of less than 2%
- Ability to build connectors, new ramps, etc.
- Cost of funds for new capital improvements will increase by 60% over public borrowing
- Require constant negotiation with private sector who now has leverage, more knowledge and more resources
- Loss of bid process for local contractors
- Failed concession may force a public bailout and payoff of concession debt

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Red Light

Concessions are not needed for existing assets:

- Low risk
- Proven traffic flows
- Excellent public management in place
- Electronic tolling controls costs
- Routes are effective monopolies and can lead to predatory pricing
- Loss of Public Policy controls for:
 - Economic Development
 - Environmental (congestion/pollution)
 - Regional traffic planning (local road congestion/diversion)

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Green Light

Concessions can be good for *Building* roads:

- Real risk taking
- Shorter term deals - 30 years
- Design/Build saves money
- Speed of execution
- Procurement Flexibility
- Public receives valuable asset at end
- Tolls reflect any cost savings

